

**ICC Docket Nos. 07-0241 and 07-0242**  
**The Peoples Gas Light and Coke Company's and**  
**North Shore Gas Company's Response to**  
**Citizens Utility Board and the City of Chicago Data Requests CUB-CITY 4.01-4.13**  
**Dated: August 9, 2007**

**REQUEST NO. CUB CITY 4.03**

Assume that the record in this case presented the Commission with only two choices:

- (i) evidence establishing a cost of equity matching the expectations of investors based on the returns approved by past regulatory commission orders (in this and other jurisdictions); or,
- (ii) an estimate, based on objective economic data, of the cost of equity the market requires for investment in enterprises with PGL's level of risk.

In Mr. Moul's opinion, which choice is appropriate, i.e., should the Commission order a cost of equity based on (i) or a cost of equity based on (ii)? Fully explain your answer.

**RESPONSE:**

Both items (i) and (ii) should be considered. It is not an either/or choice. Given the range of results produced by the models of the cost of equity (i.e., DCF, Risk Premium, CAPM), the Commission should consider the weight to be given to particular results that would guide the final rate of return on common equity, which fits within the parameters of investor expectations for the types of returns that could reasonably be anticipated from the rate case process. These investor expectations are affected by decisions that have been made in the past by other regulatory agencies, particularly recent decisions. That is to say, investors would look to the final authorized return to determine whether they should commit capital to a particular utility based upon its authorized return vis-à-vis the returns that could be realized from an investment in other utilities given their authorized returns.

**OFFICIAL FILE**  
 I.C.C. DOCKET NO. 07-0241-070242  
City Cross Exhibit No. 7  
 Witness Moul  
 Date 9-12-07 Reporter AS